Jay Bennett
Director-
Federal Regulatory

SBC Communications Inc.
1401 I Street, N.W.
Suite 1100
Washington, D.C. 20005
Phone 202 326-8889
Fax 202 408-4805

June 17, 1998

Memorandum of Ex Parte Communication

Ms. Magalie Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Ms. Salas:

Re: *CC Docket No. 96 - 45 – Universal Service*
CC Docket No. 97 - 160 – Forward-Looking Mechanism for Non-Rural LECs

On Tuesday, June 16, 1998, representatives of Southwestern Bell Telephone Company met with the Honorable Patrick Wood, Chairman of the Texas Public Utility Commission and member of the Federal-State Joint Board on Universal Service regarding the above-listed proceedings. Also in attendance were Ms. Alison Silverstein of the Texas Public Utility Commission and Mr. Rowland Curry of the Texas Public Utility Commission and member of the Universal Service Joint Board Staff. Attending on behalf of SWBT were Mr. Paul Cooper, Mr. Glen Sims, Mr. Jim Lydon.

SWBT's representatives outlined how sufficient and explicit Universal Service funding can be developed in compliance with Section 254 of the 1996 Telecommunications Act. Additionally, the deficiencies of the cost models which have been submitted in the FCC's Universal Service proceedings were described. The attached materials were used during the meeting.

We are submitting the original and one copy of this Memorandum to the Secretary in accordance with Section 1.1206(b)(2) of the Commission's rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me at (202) 326-8889 should you have any questions.

Sincerely,

cc (w/o attachments): Chairman Patrick Wood, III, Alison Silverstein, Rowland Curry

SUFFICIENT AND EXPLICIT UNIVERSAL SERVICE FUNDING CAN BE DEVELOPED IN COMPLIANCE WITH SECTION 254 OF THE 1996 FEDERAL TELECOMMUNICATIONS ACT AS FOLLOWS:

1. Calculate local exchange costs by LEC by State study area. These costs now provide quality local service and comparable access and service in urban and rural areas as required in Sections 254b(1) and b(3) of the Act and satisfy the definition of Universal Service as discussed in Section 254(c) of the Act. Specifically:

   a) From book cost data, calculate the annual fully distributed cost of (a) the loop plus; (b) local transport (trunks and tandem switching) plus; (c) the intrastate local usage allocation of the local dial switch.

   b) The calculation can readily be accomplished by every cost LEC and can be modeled for average schedule LECs. The cost data at the current geographic study area served by each LEC is sufficient to utilize to develop the explicit support requirement for each LEC. Disaggregation of these costs is not necessary to determine the explicit support level.

2. Determine local exchange revenues by LEC by State study area. These revenues per line have been determined to be just, reasonable and affordable and encompass local rates that are comparable in urban and rural areas as required by Sections 254b(1) and b(3) of the Act. Specifically:

   a) Add the revenue in the following accounts to determine the local revenues:

      Account 5001-Basic Local
      Account 5002-Optional EAS
      Account 5050-Customer Premise
      Account 5060-Other Local (Primarily Vertical Services)
      Account 5081-End User Charges
      Account 5230-Directory

   b) This information is readily available for every LEC.

3. Calculate the explicit support required for each LEC by State study area by subtracting the local revenues in (2) from the costs in (1). This explicit level would provide specific, predictable and sufficient support as required by Section 254b(5) of the Act.

   a) This support is the revenue now provided implicitly through the following rate elements to support local exchange costs so that universally available local service is available at just, reasonable and affordable rates:

      Intrastate access CCL
      Intrastate IntraLATA toll loop recovery
      Interstate access CCL, PICC and customer marketing
      Interstate LTS
      Interstate USF
      Interstate DEM Weighting

   b) The explicit support would be provided to qualifying LECs which deploy Universal Service facilities used to provide (1) their own local service, (2) resale local service, or (3) local service provided via unbundled network elements.

   c) The support requirement could be recalculated on a periodic basis.

   d) USTA provided an analysis of the level of this support to the FCC in 1996, in the Universal Service proceeding. Included with this outline is an updated estimate of this analysis by LEC by State study area.

1995 Local Costs, Revenues & Support

Estimated From Pubicly Available Data

$ Millions

State (a)	USF Loops (b)	Local Costs (c)	Local Revenues (d)	I-S EUCL (e)	Net Local Revenues (f) = d + e	Local Support Required (g) = c - f
Alabama	2,273,342	1,323.1	895.8	105.5	1,001.3	321.8
Alaska	360,287	265.9	105.0	19.4	124.5	141.5
Arizona	2,413,781	1,295.7	711.1	117.1	828.1	467.6
Arkansas	1,264,571	729.3	374.3	61.6	435.8	293.4
California	20,012,652	8,920.5	5,486.7	855.7	6,342.4	2,578.0
Colorado	2,380,417	1,570.1	937.1	118.3	1,055.4	514.7
Connecticut	1,923,443	1,291.4	810.7	99.5	910.2	381.2
Delaware	486,562	210.2	123.9	23.5	147.4	62.9
Florida	9,388,137	5,276.6	3,143.5	446.8	3,590.3	1,686.3
Georgia	4,248,892	2,556.5	1,670.6	205.6	1,876.3	680.2
Hawaii	674,283	467.4	279.2	32.4	311.6	155.7
Idaho	614,306	342.2	146.1	30.2	176.2	166.0
Illinois	7,456,877	3,214.6	2,456.2	316.1	2,772.3	442.3
Indiana	3,220,392	1,512.2	1,005.9	143.9	1,149.8	362.5
Iowa	1,504,188	676.4	326.8	70.7	397.5	278.9
Kansas	1,462,968	794.3	400.8	71.3	472.1	322.2
Kentucky	1,937,955	1,095.3	651.1	90.0	741.1	354.2
Louisiana	2,291,254	1,355.4	929.1	108.7	1,037.8	317.6
Maine	746,657	423.8	178.2	35.2	213.4	210.5
Maryland	3,227,987	1,638.6	1,118.2	156.2	1,274.4	364.2
Massachusets	4,073,588	2,200.1	1,472.6	205.4	1,678.0	522.1
Michigan	5,837,415	2,670.5	1,520.6	270.7	1,791.2	879.2
Micronesia	16,065	18.5	5.9	0.7	6.7	11.9
Minnesota	2,687,645	1,262.5	764.2	138.5	902.7	359.8
Mississippi	1,252,661	847.5	537.2	58.7	595.9	251.6
Missouri	3,059,291	1,693.4	922.3	146.8	1,069.1	624.4
Montana	475,375	291.3	106.1	25.7	131.8	159.5
Nebraska	937,590	575.2	388.9	44.6	433.5	141.7
Nevada	1,028,135	404.9	263.4	43.5	306.8	98.1
New Hampshire	736,058	408.7	223.1	38.2	261.3	147.4
New Jersey	5,649,903	2,490.4	1,319.3	265.8	1,585.1	905.3
New Mexico	837,832	516.9	294.3	41.8	336.2	180.7
New York	11,946,246	7,950.7	5,344.3	672.1	6,016.4	1,934.3
North Carolina	4,236,644	2,363.4	1,371.5	200.2	1,571.6	791.7
North Dakota	388,202	195.3	80.5	21.4	101.9	93.4
Ohio	6,231,784	3,227.1	2,286.8	291.8	2,578.6	648.5
Oklahoma	1,789,026	957.9	530.3	87.2	617.5	340.4
Oregon	1,826,728	945.3	504.9	124.8	629.7	315.6
Pennsylvania	7,435,104	3,339.7	1,930.3	350.2	2,280.5	1,059.2
Puerto Rico	1,136,461	1,021.4	531.3	55.0	586.3	435.2
Rhode Island	598,945	315.9	195.7	27.2	222.9	93.0
South Carolina	1,946,001	1,188.3	766.3	94.1	860.4	327.9
South Dakota	390,428	196.2	89.5	22.1	111.6	84.5
Tennessee	3,051,648	1,711.3	1,073.9	144.5	1,218.4	492.9
Texas	10,564,309	6,144.3	3,202.9	519.0	3,721.9	2,422.4
Utah	976,484	522.5	284.4	48.9	333.2	189.2
Vermont	367,444	228.6	94.0	17.3	111.3	117.3
Virgin Islands	39,999	48.5	36.2	3.0	39.1	9.4
Virginia	3,998,775	2,039.3	1,303.5	199.4	1,502.9	536.4
Washington DC	883,538	463.2	364.1	24.1	388.2	74.9
Washington	3,201,468	1,751.7	887.6	155.9	1,043.5	708.1
West Virginia	905,381	575.1	322.5	42.7	365.3	209.8
Wisconsin	3,043,132	1,297.3	840.2	145.3	985.5	311.8
Wyoming	271,667	172.2	61.4	17.2	78.6	93.6
Totals	159,709,923	84,994.5	51,670.2	7,651.3	59,321.5	25,673.0

Note: Column f includes vertical service revenues.

1995 Local Costs, Revenues & Support

Estimated From Pubicly Available Data

$ Millions

State (a)	USF Loops (b)	Local Costs (c)	Local Revenues (d)	I-S EUCL (e)	Net Local Revenues (f) = d + e	Local Support Required (g) = c - f
Alabama	2,273,342	1,323.1	563.4	105.5	669.0	654.1
Alaska	360,287	265.9	85.9	19.4	105.3	160.6
Arizona	2,413,781	1,295.7	566.5	117.1	683.5	612.1
Arkansas	1,264,571	729.3	296.5	61.6	358.0	371.3
California	20,012,652	8,920.5	4,332.2	855.7	5,187.9	3,732.5
Colorado	2,380,417	1,570.1	799.7	118.3	918.0	652.1
Connecticut	1,923,443	1,291.4	726.3	99.5	825.8	465.6
Delaware	486,562	210.2	98.0	23.5	121.5	88.8
Florida	9,388,137	5,276.6	2,405.0	446.8	2,851.9	2,424.7
Georgia	4,248,892	2,556.5	1,273.9	205.6	1,479.5	1,076.9
Hawaii	674,283	467.4	236.9	32.4	269.3	198.1
Idaho	614,306	342.2	119.1	30.2	149.3	192.9
Illinois	7,456,877	3,214.6	2,072.0	316.1	2,388.0	826.6
Indiana	3,220,392	1,512.2	855.3	143.9	999.2	513.1
Iowa	1,504,188	676.4	265.2	70.7	335.9	340.5
Kansas	1,462,968	794.3	302.7	71.3	374.0	420.3
Kentucky	1,937,955	1,095.3	488.9	90.0	578.9	516.4
Louisiana	2,291,254	1,355.4	446.4	108.7	555.1	800.3
Maine	746,657	423.8	154.2	35.2	189.5	234.4
Maryland	3,227,987	1,638.6	909.7	156.2	1,066.0	572.7
Massachusets	4,073,588	2,200.1	1,287.0	205.4	1,492.4	707.7
Michigan	5,837,415	2,670.5	1,169.0	270.7	1,439.7	1,230.8
Micronesia	16,065	18.5	5.3	0.7	6.1	12.5
Minnesota	2,687,645	1,262.5	603.8	138.5	742.2	520.3
Mississippi	1,252,661	847.5	391.0	58.7	449.8	397.7
Missouri	3,059,291	1,693.4	681.1	146.8	827.9	865.5
Montana	475,375	291.3	87.9	25.7	113.6	177.7
Nebraska	937,590	575.2	333.7	44.6	378.3	196.9
Nevada	1,028,135	404.9	191.9	43.5	235.3	169.6
New Hampshire	736,058	408.7	196.5	38.2	234.7	174.0
New Jersey	5,649,903	2,490.4	940.2	265.8	1,206.0	1,284.4
New Mexico	837,832	516.9	243.4	41.8	285.3	231.6
New York	11,946,246	7,950.7	4,209.6	672.1	4,881.8	3,068.9
North Carolina	4,236,644	2,363.4	1,093.9	200.2	1,294.1	1,069.2
North Dakota	388,202	195.3	66.6	21.4	88.1	107.2
Ohio	6,231,784	3,227.1	1,898.4	291.8	2,190.2	1,036.8
Oklahoma	1,789,026	957.9	402.9	87.2	490.1	467.8
Oregon	1,826,728	945.3	400.3	124.8	525.1	420.2
Pennsylvania	7,435,104	3,339.7	1,490.4	350.2	1,840.6	1,499.1
Puerto Rico	1,136,461	1,021.4	492.0	55.0	547.0	474.4
Rhode Island	598,945	315.9	175.6	27.2	202.8	113.1
South Carolina	1,946,001	1,188.3	578.5	94.1	672.6	515.7
South Dakota	390,428	196.2	70.7	22.1	92.8	103.4
Tennessee	3,051,648	1,711.3	731.6	144.5	876.0	835.2
Texas	10,564,309	6,144.3	2,459.7	519.0	2,978.7	3,165.6
Utah	976,484	522.5	226.1	48.9	275.0	247.5
Vermont	367,444	228.6	101.1	17.3	118.4	110.2
Virgin Islands	39,999	48.5	31.7	3.0	34.7	13.8
Virginia	3,998,775	2,039.3	1,083.0	199.4	1,282.4	756.9
Washington DC	883,538	463.2	294.3	24.1	318.3	144.8
Washington	3,201,468	1,751.7	717.1	155.9	873.0	878.6
West Virginia	905,381	575.1	276.6	42.7	319.3	255.8
Wisconsin	3,043,132	1,297.3	721.7	145.3	867.0	430.3
Wyoming	271,667	172.2	50.3	17.2	67.5	104.7
Totals	159,709,923	84,994.5	40,701.0	7,651.3	48,352.3	36,642.2

Note: Column f does not include vertical service revenues.

Costs of Universal Service

1. After more than two years of development, with no end in sight:

   - Do Proxy Models accurately produce the costs of universal service?
   - Are the models simply being manipulated to achieve a desired cost/support result?
   - Will this result in sufficient and predictable support as required by the Federal Act?

2. Perhaps we have lost sight of the objective:

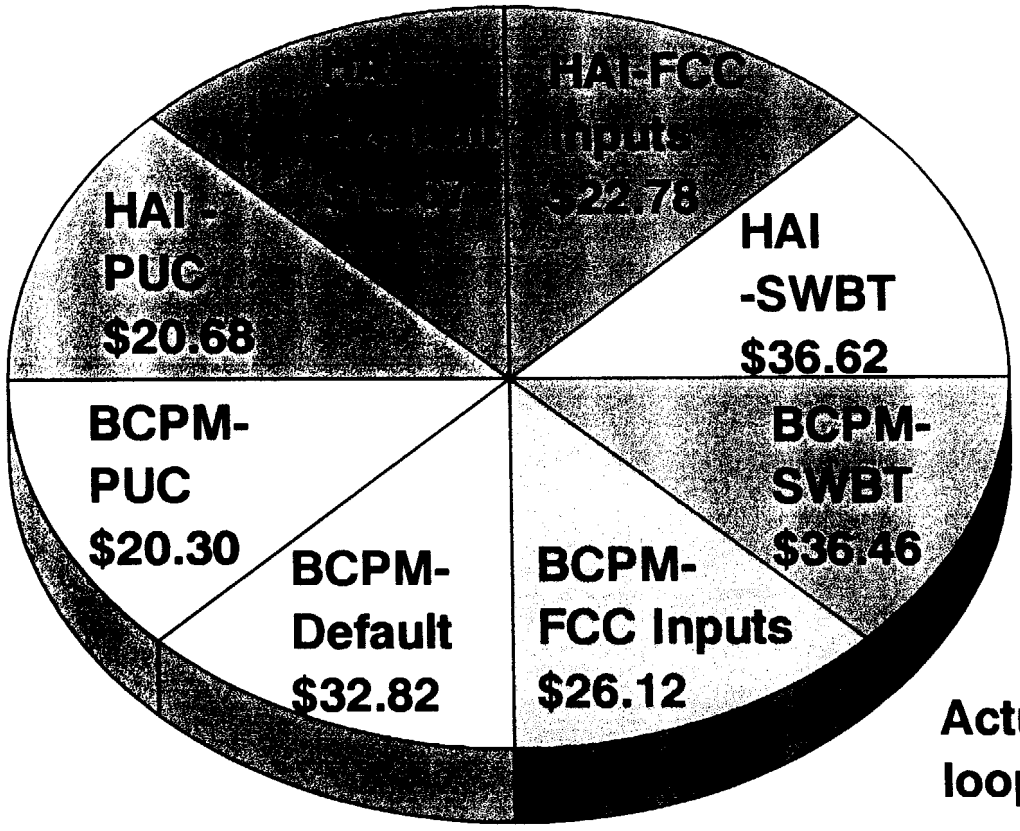
   - What does it really cost to build a network capable of (a) serving all who want service (COLR) and (b) providing "quality" universal service which is "comparable" in urban and rural areas?

WHICH HYPOTHETICAL PROXY COST REFLECTS THE "TRUE" FORWARD-LOOKING ECONOMIC COST OF UNIVERSAL SERVICE?

MODEL DESCRIPTION	AVERAGE COST PER LOOP Hatfield/HAI - Sum of Unbundled elements for SWBT; BCM/BCPM - Total average cost of Universal Service for entire state				
	AR	KS	MO	OK	TX
Hatfield, Version 2.2, Release 1, 5/16/96	$23.41		$20.51	$21.17	$16.96
Hatfield, Version 2.2, Release 2, 9/4/96	$22.20	$21.02	$18.74	$21.32	$16.76
Hatfield, Version 3.1, 2/28/97	$23.33	$19.77	$17.80	$21.76	$16.98
Hatfield, Version 4.0, 8/5/97	$24.19	$20.77	$17.71	$23.04	$16.74
Hatfield, Version 5.0, 12/15/97	$22.67	$20.99	$17.59	$22.20	$16.27
Hatfield - HAI, Version 5.0a, Default Inputs, (NOTE #1)	$22.58	$20.73	$18.76	$22.27	$16.67
Hatfield - HAI, Version 5.0a FCC Inputs (NOTE #1)	$28.34	$26.45	$25.02	$28.73	$22.78
BCM or BCPM Benchmark Cost Model, Version 1, MCI, NYNEX, SPRINT, US West, 12/1/95	$33.56	$33.01	$28.43	$26.59	$24.14
BCM2, SPRINT, US West, 7/3/96	$40.97	$35.37	$34.17	$35.06	$29.98
Benchmark Cost Proxy Model (BCPM), SPRINT, US West, Pacific Bell, 1/31/97	$52.97	$44.55	$41.05	$44.65	$36.30
BCPM, SPRINT Only Inputs, 3/24/97					
BCPM 3.0 Default Inputs, 2/5/98					
BCPM 3.0 FCC Inputs, 2/5/98					
BCPM 3.x, Default Inputs (NOTE #1)	$45.66	$40.69	$34.32	$41.34	$32.82
BCPM 3.x, FCC Inputs, (NOTE #1)	$34.48	$31.28	$27.07	$31.47	$26.12

NOTE #1 These numbers were taken from an Ex Parte letter to the FCC in CC Docket No. 96-45 & 97-160 by MCI, dated April 17, 1998. The same numbers were included in an Ex Parte filed by AT&T on April 3, 1998 in CC Docket No., 96-45 & 97-160 on April 10, 1998.

The Forward-looking Economic Cost Model
WHEEL of FORTUNE



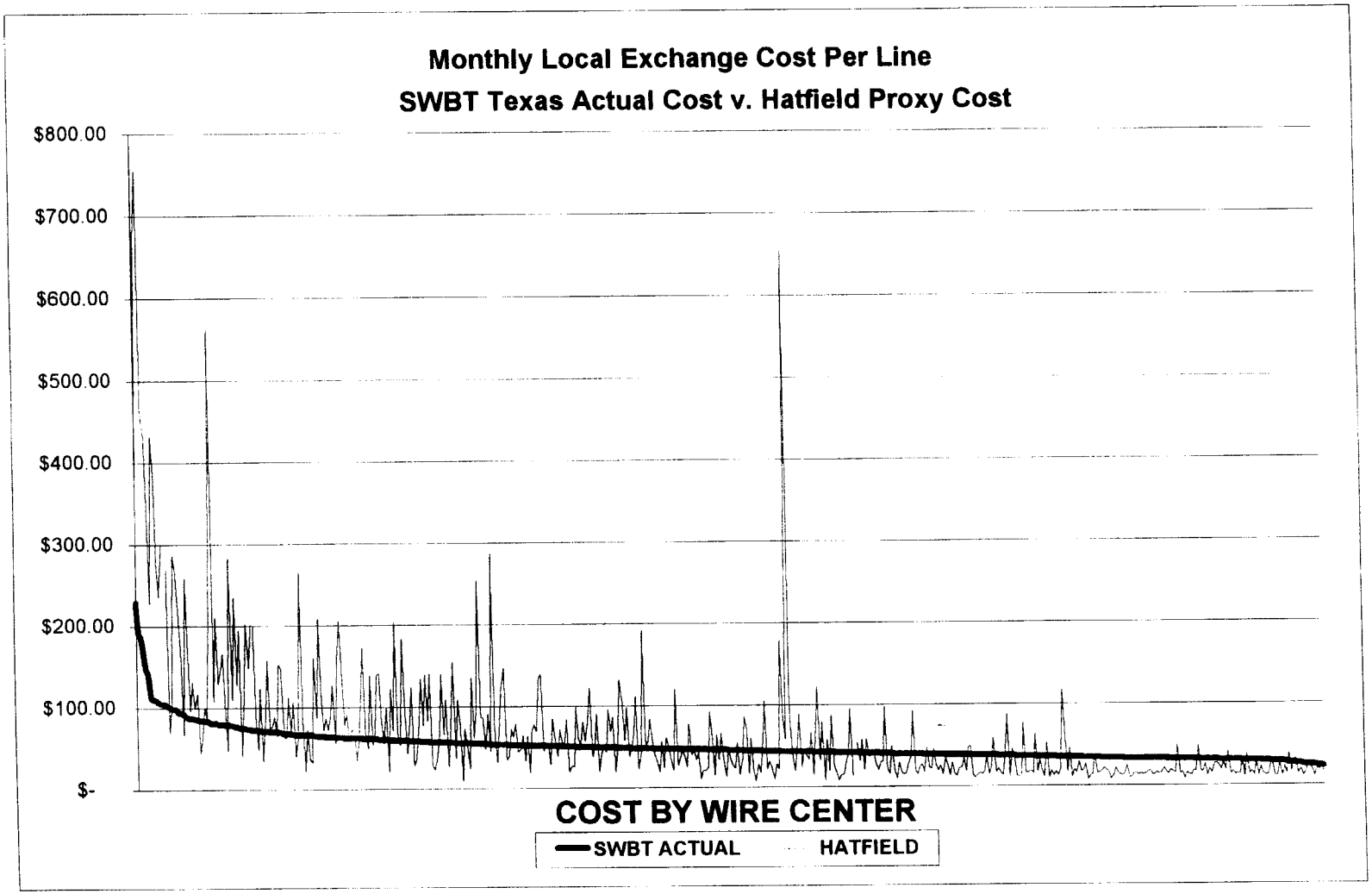
Actual cost per loop is $37.99

It Appears that Proxy Models:

1. **Can't determine an accurate cost of Universal Service, but**
2. **May be inappropriately utilized to achieve a desired support level by manipulating inputs or logic.**

Hatfield Proxy Model

- Does not accurately reflect actual wire center costs of universal service.
- Skews costs to the rural areas.



BCPM Proxy Model

Does not accurately reflect actual wire center costs of universal service.